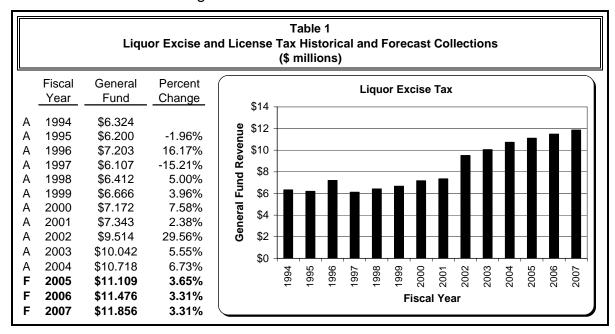
LIQUOR EXCISE AND LICENSE TAX

Revenue Description

Sections 16-1-401 (excise tax) and 16-1-404 (license tax), MCA, direct the Department of Revenue to collect an excise tax of 16%, and a license tax of 10% of the retail selling price on all liquor sold and delivered in the state. The tax is 13.8% (excise tax), and 8.6% (license tax) of the retail selling price if the liquor manufacturer sold not more than 200,000 proof gallons of liquor nationwide in the preceding calendar year. Both the excise and license tax are paid directly by liquor store owners when they purchase liquor from the State Liquor Warehouse. A small portion of liquor *excise* tax revenue is refunded to three Indian tribes that have a revenue sharing agreement with the state, with the remaining revenue deposited in the state general fund. The liquor *license* tax is deposited 34.5% in the state general fund and 65.5% to the Department of Public Health and Human Services to fund alcohol treatment programs.

Historical and Projected Revenue

Table 1 shows historical and projected liquor excise and license tax general fund revenue for FY 1994 through FY 2007.



Liquor excise tax general fund revenue spiked in FY 1996 due to sales from privatizing the state-owned liquor stores. When privatization occurred, the state sold state-owned liquor merchandise in the state liquor stores to the new store owners. This resulted in higher dollar and unit sales, but not increased consumption. FY

1997 shows a decline in sales due to selling the liquor inventory to the private liquor store owners in FY 1996.

HB 124 (2001 session) changed the distribution of the liquor license tax. Prior to FY 2002, 34.5% of the liquor license tax was distributed to local governments. Beginning in FY 2002, all of the liquor license tax is deposited in the state general fund. This change explains the 29.56% growth in state general fund revenue in FY 2002 from this revenue source.

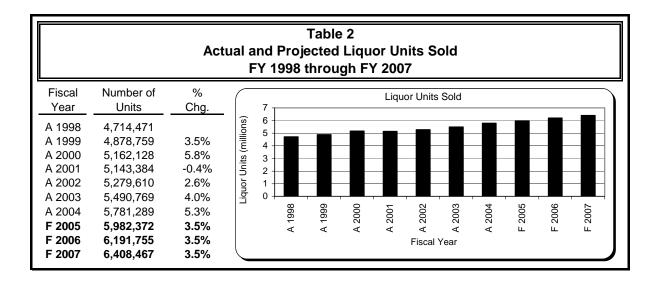
The forecast projects liquor excise and license tax general fund revenue to increase 3.71% in FY 2005, and 3.31% annually in FY 2006 and FY 2007.

Forecast Methodology and Projection Calculation

There are four steps to estimate general fund revenues each fiscal year from the liquor excise and license tax: calculate gross sales; calculate retail selling value; calculate gross liquor excise and license tax collections; and calculate liquor excise and license tax general fund revenue.

Step 1: Calculate Gross Sales

The first step in estimating liquor excise and license tax receipts is to calculate gross sales. There are three components to this calculation: the number of liquor units sold; the cost per liquor unit; and the gross sales-to-cost ratio. Table 2 shows actual and projected liquor units sold from FY 1998 through FY 2007. The number of liquor units sold in FY 2005 through FY 2007 is projected to increase 3.5% annually, which is the average annual growth rate from FY 1998 through FY 2004.



Cost per liquor unit sold is the cost of goods sold divided by the number of liquor units sold. The actual cost per liquor unit, and the annual percent change for FY 1998 through FY 2004 is shown in Table 3. Cost per liquor unit sold for FY 2005 through FY 2007 is projected to increase 1.64% annually. This is the average annual growth rate from FY 1998 through FY 2004, excluding the high year (FY 2001) and the low year (FY 1999).

Table 3 Actual and Projected Cost per Liquor Unit FY 1998 through FY 2007

Fiscal Year	Cost of Goods Sold	Number of Units	Cost per Unit	Annual % Change
A 1998	\$29,121,673	4,714,471	\$6.177	
A 1999	\$30,201,100	4,878,759	\$6.190	0.21%
A 2000	\$32,318,269	5,162,128	\$6.261	1.14%
A 2001	\$33,666,541	5,143,384	\$6.546	4.55%
A 2002	\$35,279,453	5,279,610	\$6.682	2.09%
A 2003	\$37,321,005	5,490,769	\$6.797	1.72%
A 2004	\$39,933,421	5,781,289	\$6.907	1.62%
F 2005		5,876,102	\$7.021	1.64%
F 2006		5,972,470	\$7.136	1.64%
F 2007		6,070,419	\$7.253	1.64%

The sales-to-cost ratio is gross sales divided by the cost of goods sold. Table 4 shows this ratio and the annual percent change for FY 1998 through FY 2004. The sales-to-cost ratio for FY 2005 through FY 2007 is projected to remain fixed at the FY 2004 level of 1.774.

Table 4 Historical and Projected Sales to Cost Ratio FY 1995 through FY 2005

Fiscal	Gross		Cost of		Sales to	a. a.
Year	Sales	_ / _	Goods Sold	_ =	Cost Ratio	% Chg.
A 1998	\$51,381,137	/	\$29,121,673	=	1.764	
A 1999	\$53,679,508	/	\$30,201,100	=	1.777	0.74%
A 2000	\$57,467,696	/	\$32,318,269	=	1.778	0.04%
A 2001	\$58,844,284	/	\$33,666,541	=	1.748	-1.71%
A 2002	\$62,514,926	/	\$35,279,453	=	1.772	1.38%
A 2003	\$66,123,983	/	\$37,321,005	=	1.772	-0.01%
A 2004	\$70,827,539	/	\$39,933,421	=	1.774	0.11%
F 2005					1.774	0.00%
F 2006					1.774	0.00%
F 2007					1.774	0.00%

Gross sales for FY 2005 through FY 2007 are calculated as the product of the projected number of liquor units sold, the estimated cost per unit, and the projected sales-to-cost ratio, as shown in Table 5.

Table 5 Estimated Gross Liquor Sales FY 2005 through FY 2007

Year Liquor Units x Unit x Ratio = Gross Sales 2005 5,876,102 x \$7.021 x 1.774 = \$73,169,732 2006 5,972,470 x \$7.136 x 1.774 = \$75,589,379 2007 6,070,419 x \$7.253 x 1.774 = \$78,089,047	Fiscal	Number of		Cost per		Sales/Cost		Estimated
2006 5,972,470 x \$7.136 x 1.774 = \$75,589,379	Year	Liquor Units	Х	Unit	Х	Ratio	_ = _	Gross Sales
==== x		5,972,470	Х	\$7.136	X X X	1.774	=	\$75,589,379

Step 2: Calculate Retail Selling Value

The liquor store owner pays both liquor excise (16%) and liquor license (10%) taxes. These taxes are in the gross sales in Table 5. As shown in Table 6, to estimate the pre-tax retail value of liquor sales, gross liquor sales are divided by the combined liquor excise and liquor license tax rate of 1.26.

Table 6 Calculation of Liquor Sales Retail Value FY 2005 through FY 2007							
Fiscal Year	Estimated Gross Sales	/	1 + (Combined Tax Rate*)	. = .	Estimated Retail Value		
2005 2006	\$73,169,732 \$75,589,379		1.26 1.26	=	\$58,071,216 \$59,991,571		
2007 \$78,089,041 / 1.26 = \$61,975,429							
*Combii	*Combined Liquor Excise and Liquor License Taxes						

Step 3: Calculate Gross Liquor Excise and License Tax Collections

Liquor excise tax receipts for FY 2005 through FY 2007 are estimated by multiplying the retail value of liquor sales by the liquor excise tax rate as shown in Table 7.

Table 7 Calculation of Estimated Gross Liquor Excise Tax FY 2005 through FY 2007						
Fiscal Year	Estimated Retail Value	х	Liquor Excise Tax Rate	=_	Estimated Gross Liquor Excise Tax	
2005 2006 2007	\$58,071,216 \$59,991,571 \$61,975,429		16% 16% 16%	= = =	\$9,291,395 \$9,598,651 \$9,916,069	

Liquor license tax receipts for FY 2005 through FY 2007 are estimated by multiplying the retail value of liquor sales by the liquor license tax rate as shown in Table 8.

Table 8 Calculation of Estimated Gross Liquor License Tax FY 2005 through FY 2007							
Fiscal Year	Estimated Retail Value	X	Liquor License Tax Rate	=	Estimated Gross Liquor License Tax		
2005 2006 2007	\$58,071,216 \$59,991,571 \$61,975,429		10% 10% 10%	= = =	\$5,807,122 \$5,999,157 \$6,197,543		

Step 4:

Calculate Liquor Excise and License Tax General Fund Revenue

The liquor excise tax receipts that are transferred to the general fund are calculated by subtracting the estimated amount of tribal refunds from the gross liquor excise tax projection. As alcohol payments to the tribal governments have averaged 2% of the general fund alcohol collections for FY 2000 through FY 2004, tribal refunds are estimated at 2% of the liquor excise tax for FY 2005 through FY 2007.

Table 9 shows liquor excise tax general fund revenue is estimated to be \$9.1 million in FY 2005, \$9.4 million in FY 2006, and \$9.7 million in FY 2007. Liquor license tax general fund is estimated to be \$2.0 million in FY 2005, \$2.1 million in FY 2006, and \$2.1 million in FY 2007. Total liquor excise tax and liquor license tax general fund revenue is estimated at \$11.1 million for FY 2005, \$11.5 million for FY 2006, and \$11.9 million for FY 2007.

Table 9 Calculation of Liquor Excise Tax and Liquor License Tax General Fund Revenue FY 2005 through FY 2007							
Fiscal Year	Estimated Gross Liquor Excise Tax	_	Estimated Tribal Refunds	_ = _	Estimated Liquor Excise Tax General Fund Revenue		
2005 2006 2007	\$9,291,395 \$9,598,651 \$9,916,069	- - - *****	\$185,828 \$191,973 \$198,321	= = = ****	\$9,105,567 \$9,406,678 \$9,717,747		
Fiscal Year	Estimated Gross Liquor License Tax	Х	General Fund Share	_ = _	Estimated Liquor License Tax General Fund Revenue		
2005 2006 2007	\$5,807,122 \$5,999,157 \$6,197,543	X X	34.5% 34.5% 34.5%	= =	\$2,003,457 \$2,069,709 \$2,138,152		
Fiscal Year	*******	****	******	****	Total General Fund Revenue		
2005 2006 2007					\$11,109,024 \$11,476,387 \$11,855,900		